FACTORS AFFECTING PROFITABILITY IN BANKING ENTERPRISES

Catheryn Iona Nelson¹, Ester², Jeninfer³, Viorene⁴

Affiliate:
¹,²,³,⁴ Accounting Study Program, Bunda Mulia University

Article Process:
Received 12-26-2023
Revised 02-26-2024
Accepted 02-27-2024

*Correspondence:
cnelson@bundamulia.ac.id

DOI:
http://dx.doi.org/10.30813/jab.v17i1.4978

Abstract
Background: Banking companies were chosen as subjects for this study because banking companies experienced an increase in profits along with stronger profitability ratios, so banking companies were considered very prospective for investors.

Objective: This study aims to determine the effect of company size, leverage, as well as public share ownership on profitability in banking companies listed on the Indonesia Stock Exchange in 2020 - 2022.

Research Method: The sampling technique in this study used a purposive sampling technique with a sample of 30 banking companies. This study used linear regression data analysis with the help of SPSS to test the hypothesis, with a descriptive type of research.

Research Results: The results of this study show that company size has a positive influence on profitability, while leverage has a negative influence on profitability. On the other hand, public shareholding does not affect profitability.

Originality/Novelty of Research: Analyzing the latest regulations regarding free float for companies on the IDX, especially in the banking subsector.

Keywords: company size, leverage, public shareholding, profitability

Introduction

Financial problems are one of the fundamental problems for an entity in business development in all entities (Syafi'i & Haryono, 2021). One of the purposes of establishing an entity is to generate maximum profit or profitability. Profitability is the company's expertise in obtaining profits (Kusumawati & Rosady, 2018). Companies with high profitability have the advantage of being able to utilize their assets correctly which can generate profits and will indicate bright prospects for the entity in the future. This allows investors to understand positive signals related to the potential in the future to add funds. Increasing profitability and maximizing profitability are interconnected entity objectives to improve the welfare of stakeholders, shareholders, which are important criteria for maintaining the sustainability of the company.

Khadafi (2023) said that PT Bank Rakyat Indonesia (Persero) Tbk. is expected to record another profit in the banking industry. This is in line with the bank's increasingly strong profitability ratio. BRI's profit realization until the first semester of 2023 was IDR 29.56 trillion, increasing by about 18.8%. With Assumption from the achievements of the first half of this year, the bank's year-end profit could reach Rp 60 trillion. In the same period, BRI's asset quality improved compared to last year, thus optimizing the
bank's profit growth going forward. Internal factors that affect profitability are the size of the company which shows that if profitability increases, then the value of assets will also increase.

Deviyana (2023), in the Market news attached that PT Bank Jago Tbk (ARTO) managed to score a net profit of IDR 50 billion in nine months in 2023 or grew 24% compared to the previous year. The ratio of CASA to total Third Party Funds (DPK) at the same time also passed 73% reaching an all-time high. Besides highlighting funding strategies and asset quality management, Azis also assessed ARTO's capital condition as very good. This shows that banks' ability to leverage credit distribution is still wide. However, so far, Bank Jago has focused on improving its asset quality and reflected in the improving NPLs and this is a wise strategy," added Azis.

The profitability of an entity can be affected by various types of factors that trigger it. The factors in question can be factors that come from within the entity (internal) or factors that come from outside the entity (external). Internal factors that can affect the profitability of an entity are leverage and company size (Adria & Susanto, 2020).

High profits attract investors to invest in a company. The investors in question include public ownership, foreign ownership, government ownership, and corporate ownership. The large percentage of ownership shares affects the financial statements. The high shareholding held by the public results in transparent financial statements and provides demands and expectations by investors for higher profitability.

The profitability of a company can be assessed in various ways depending on profits and assets or capital that will be compared with one another. High profitability also indicates the condition of the assets of an enterprise. Company assets can be financed by debt. Good debt management to finance operational activities can increase company profitability, but excessive use of debt can cause a decrease in profitability (Putranto, 2019). Leverage is a source of funds obtained from outside parties or through loans and has interest as a fixed expense that aims to increase shareholder profits (Adria & Susanto, 2020).

Company size is a scale that classifies the size or size of an entity through the total value of the assets it controls. The total value of assets can indicate the size of the capital invested. The high profitability of a company can be a reflection that concludes that the company has good financial performance. This can affect the size of the company because with it investors will become more interested in investing in companies that have high profitability which will increase the ability to operate a company (Aghnitama., et al, 2021).

External factors that can affect the profitability of an entity include public ownership. According to Agustina &; Soelistya (2018), public ownership is the percentage of shares that have been owned by
outsiders (outsider ownership). The more public shares the better, the clearer the control carried out by the manager. With this, they can present valid information to the public about the performance or performance of an entity. The existence of public ownership can encourage companies to more profit because shareholders, especially the public, will want a large return when they invest in the company.

Timorria (2023), wrote that the rules for changes to the Indonesia Stock Exchange (IDX) require listed companies to have at least 50 million free float shares and 7.5 percent of the total listed shares by December 21, 2023. The greater the number of public shares participating in an entity, the better it will be for the company and have an impact on the control exercised on the entity. This can be seen from the trust given by the entity to the public or the public in inviting investment in the entity, especially in the participation of shares. Public contribution in decision-making made by the company.

The size of the company stated by Veronica & Saputra (2021) does not affect profitability. According to Aghnitama et al., (2021) company size has a negative influence on the profitability of the entity. According to Rahmawati et al., (2021), company size has a positive and significant effect on profitability. According to Wijaya et al., (2021), the size of the company also has a positive influence on profitability. According to Sofwan et al., (2022) the size of the Company has a very strong influence on Profitability.

Susilawati & Purnomo (2023) stated that leverage has a negative influence on company profitability. According to Adria & Susanto (2020), leverage has a significant positive influence on profitability. Supardi, et al (2018), Tambunan and Prabawani (2018), and Supardi et al (2016) in Putranto (2019) obtained the output that the leverage proxied by DAR negatively affects profitability. Leverage has a significant and negative influence on profitability (Dawar, 2014; Fareed et al., 2016; Isik, 2017). (Kartikasari and Merianti, 2016) in Fransisca and Widjaja (2019) said a different thing, namely leverage has a positive and significant influence on profitability.

According to Ali (2019), public share ownership itself has a positive influence on profitability. According to Susyani & Marlina (2022), it is stated that there is a negative influence of public share ownership on the profitability of entities. Research conducted by Agustina & Soelistya (2018) in Surayya & Kadang (2020) is related to the analysis of the company's ownership structure on the profitability of food and beverage companies listed on the IDX. This study shows that there is a partially significant influence of public stock participation on profitability.

Due to the increase in profits in the banking sector which affects the profitability ratio, this is also influenced by assets, which assets can also be financed by debt or shares. There are new regulations regarding free float 7.5% is publicly owned which affects profitability. With this, the purpose and purpose
of this study is to determine the effect of assets, liabilities, and equity which is focused on variable company size, leverage, and public ownership on profitability.

**Literature Review**

**Signal Theory**

Signal theory was originally introduced by Spence (1973) shows how a business aesthetic provides signals to its stakeholders (users of financial statements). These signals can take the form of information that shows that a company is better than other companies. If the company publishes increased profits, then such information is considered a good signal (*positive signal*) so is the opposite (Dang, et al., 2019). Similarly, large company assets usually describe the company's ability to be *sustainable*, so when a positive signal is received by potential investors or the public, they will tend to invest shares or capital in the company. Then, if *leverage* the higher the company compared to the company's assets, the information becomes a negative signal and influences the decisions of potential investors in investing.

**Company Size**

Company size is a size related to the size of the company, one of which can be measured through the number of assets controlled by the company (Kammagi & Veny, 2023). The greater the total assets of the company, it can be indicated and measured that the greater the profitability of the company. Companies with large assets will use existing resources as much as possible to generate business profits and companies with small assets certainly also generate profits from their relatively small assets (Wage, et al., 2022) This is following signal theory where companies that have high assets are expected to give positive signals to investors, so the higher the company's assets can provide higher profitability.

According to (Pradnyaswari & Dana, 2022), company size has a significant positive effect on profitability. (Adria & Susanto, 2020a) shows that company size affects profitability. Based on the description above, it is suspected that the size of the company affects profitability and lowers the hypothesis as follows:

**H1**: Company size affects profitability

**Leverage**

*Leverage* according to Adria & Susanto (2020), is the amount of debt used to finance company assets. According to Sutanto (2021), debt has a bad impact on company profitability, because higher debt levels mean that interest expenses will be greater which means reducing profits. The higher the *Leverage*
shows the greater the company's burden on outsiders, this is very possible in reducing the company's profitability.

According to Pradana (2021), leverage negatively affects profitability. Companies can increase the portion of funding sources through debt if the company can manage the source of funds derived from debt well and used for productive investment projects so that it can have a positive impact on increasing company profitability. However, if the company cannot manage the funds obtained properly, it will have a negative effect and have an impact on decreasing company profitability. Similar research also conducted by Pradnyaswari & Dana (2022) and Sutanto (2021) shows that leverage negatively affects profitability. Leverage refers to the use of loans to magnify profits, but if the company uses leverage inappropriately or exceeds its capacity to manage debt, this can give negative signals to the market about high financial risks and potential problems to the company's profitability. The lower the leverage is obtained can the more increasing the profitability of the company. Based on the description above, it is suspected that leverage affects profitability and lowers the following hypotheses:

**H2:** Leverage negatively affects profitability

**Public Share Ownership**

According to Krisdiyanti & Hermanto (2022), public share ownership means company shares owned by large groups that have no relationship with investment institutions. When a company has more public shareholders, it can reflect a high level of confidence from investors in the company's performance and prospects. Broad public shareholding can give a positive signal to the market because companies have good transparency in financial reporting and risk management, which can boost investor confidence and push up share prices. In a company, it is mandatory to issue public ownership shares of at least 7.5%.

According to Ali (2019), public share ownership affects profitability, because basically, public share ownership has a positive impact. After all, there is strict control from both parties, so that information is less wrong. Greater public ownership can prevent companies from profit manipulation and waste by management because more information is also received by the public. So greater public ownership shows more efficient utilization of company assets. This information is supported by previous research which states that there is an influence between share ownership and profitability by Surayya & Kadang (2020) and Krisdiyanti & Hermanto (2022). Following signal theory when a company has a large number of public shareholders, it can increase investor access to company information. Public stock ownership can reflect investor confidence in the company, as investors are willing to invest their money in company stock. This can give a positive signal to the market that the company has good prospects and can generate attractive
profits for shareholders. Based on the description above, it is suspected that public share ownership affects profitability and lowers the following hypothesis:

**H3:** Public shareholding affects profitability

**Conceptual Framework**

The following is the conceptual framework of this study:

![Conceptual Framework](image)

**Figure 1. Conceptual Framework**

**Research Methods**

The subject of this study is a banking company listed on the IDX in 2020-2022. The subject was chosen because banking is a sector that provides trust services for every customer who entrusts their finances and has the opportunity to continue to have sustainability in the long term. Meanwhile, the object of research is data contained in the company’s audited annual report related to ROA, Size, DAR, and Public Share Ownership.

This type of research is descriptive research. This type of research is *ex post facto*, meaning that research is carried out after the occurrence of an event. This study aims to determine the possibilities of a relationship between cause and effect, based on observations of existing effects, and look for factors that can be the cause through certain data.

Data collection techniques are carried out using documentation methods, namely by collecting directly documents related to research. Data obtained from IDX by accessing www.idx.co.id is also supported by the official website owned by the company. Data is collected by literature study, reading reference books and journals to obtain the appropriate theoretical foundation.
The companies sampled in this study are banking companies, there are 57 companies in the sector. Where banking companies listed in the research period with complete reports are 30 companies.

**Operational Definition Table**

Here's the operational table of variables:

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Pengukuran</th>
<th>Skala</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitabilitas</td>
<td>ROA = Laba Tahun Berjalan : Total Aktiva</td>
<td>Rasio</td>
</tr>
<tr>
<td></td>
<td>(Susilawati &amp; Purnomo, 2023)</td>
<td></td>
</tr>
<tr>
<td>Ukuran Perusahaan</td>
<td>Size = Logaritma Natural (Total Aktiva)</td>
<td>Rasio</td>
</tr>
<tr>
<td></td>
<td>(Ali, 2019)</td>
<td></td>
</tr>
<tr>
<td>Leverage</td>
<td>DAR = Total Hutang : Total Aset</td>
<td>Rasio</td>
</tr>
<tr>
<td></td>
<td>(Putranto, 2019)</td>
<td></td>
</tr>
<tr>
<td>Kepemilikan Saham</td>
<td>KSP = Jumlah saham yang dimiliki oleh publik / jumlah total saham beredar</td>
<td>Rasio</td>
</tr>
<tr>
<td></td>
<td>(Surayya &amp; Kadang, 2020)</td>
<td></td>
</tr>
</tbody>
</table>

**Results and Discussion**

**Result**

**Table 2 Descriptive Statistic**

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>N</th>
<th>MIN</th>
<th>MAX</th>
<th>MEAN</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y_PB</td>
<td>90</td>
<td>-0.3588</td>
<td>0.04164</td>
<td>0.0116173</td>
<td>0.01243224</td>
</tr>
<tr>
<td>X1_UP</td>
<td>90</td>
<td>1.992544,687,000,00</td>
<td>278,208,642,784,215</td>
<td>475,304,638,940,868</td>
<td>250</td>
</tr>
<tr>
<td>X2_LV</td>
<td>90</td>
<td>0.63</td>
<td>0.92</td>
<td>2.824</td>
<td>0.05879</td>
</tr>
<tr>
<td>X3_KP</td>
<td>90</td>
<td>1.130</td>
<td>60.390</td>
<td>2.035,549</td>
<td>17.265,476</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>90</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Output SPSS 25*

Based on the table above, conclusions can be drawn from some information, namely (1) During the period 2020 to 2022, some companies suffered losses of 3.59% and companies experienced profits of up to 4.16%. The average profit received by the banking sub-sector compared to assets was 1.16%. A higher-
than-average standard deviation means that the spread of ROA varies greatly due to differences in data. (2) The minimum assets owned by these companies is 5,365T and the maximum or highest assets are 1992,544T. The average assets owned by banking subsector companies is 278.2T with a standard deviation of 475.3T showing above the average assets owned, it can be concluded that the distribution of assets is very searchable or high. (3) For the DAR, the minimum value of the debt or the smallest debt is 63% of the asset. The maximum debt or highest debt available is 92%. The average existing debt is 82.4% of assets. The standard deviation is 5.89%, which means that the leverage spread is very low. (4) The minimum percentage of shares owned by the public in banking subsector companies is 1.13% and the maximum percentage of shares or the highest percentage owned by the public is 60.39% of the total outstanding shares. The average percentage of shares owned by the public is 20.36%. The standard deviation is 17.27%, meaning that the distribution rate of public shares is low.

**Classical Assumption Test**

Here are the results of the Normality Test:

![Table 2 Normality Test](image)

The significance value of the normality test using One-Sample KS is 0.098. The number is greater or ">" than 0.05 which means that the data has been distributed normally. Here are the results of the Autocorrelation Test:

![Table 3 Autocorrelation Test](image)
Durbin-Watson *test score* of 0.873. The number is between -2 to 2 which means there is no autocorrelation in the data. Here are the results of the Multicollinearity Test:

**Table 4 Multicollinearity Test**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>X1 LN</td>
<td>.960</td>
</tr>
<tr>
<td></td>
<td>X2 LV</td>
<td>.985</td>
</tr>
<tr>
<td></td>
<td>X3 KP</td>
<td>.970</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Y PB

Sumber: Output SPSS 25

The tolerance value of each independent variable in the table is above 0.1 and the VIF value of each independent variable is below 10. That is, there is no multicollinearity between variables.

Here are the results of the Heteroscedasticity Test:

**Table 5 Heteroscedasticity Test**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized B</th>
<th>Coefficients Std. Error</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>.038</td>
<td>.017</td>
<td></td>
<td>2.308</td>
<td>.023</td>
</tr>
<tr>
<td>X1 LN</td>
<td>-.001</td>
<td>.000</td>
<td>-.178</td>
<td>-1.648</td>
<td>.103</td>
</tr>
<tr>
<td>X2 LV</td>
<td>-.009</td>
<td>.012</td>
<td>-.077</td>
<td>-1.726</td>
<td>.470</td>
</tr>
<tr>
<td>X3 KP</td>
<td>.003206</td>
<td>.000</td>
<td>.008</td>
<td>.077</td>
<td>.938</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ABRESID

Sumber: Output SPSS 25

The significance value of each independent variable is greater than 0.05. This means that there is no heteroscedasticity in the data of this study. The following is from the Coefficient of Determination Test:
The resulting Adjusted R Square value is 31.7%. This means that the variable return of assets is influenced by independent variables by 31.7% and the remaining 68.3% is influenced by other variables.

Here are the results of the Model Qualification Test:

**Table 7 Model Qualification Test**

<table>
<thead>
<tr>
<th>Source: Output SPSS 25</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.005</td>
<td>3</td>
<td>.002</td>
<td>14.758</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>.009</td>
<td>86</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.014</td>
<td>89</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Y PB

b. Predictors: (Constant), X3 KP, X2 LV, X1 LN

The calculated F Test value is 14.758 and the significance value is less than or "," 0.05. With this significance value, it can be concluded that the model in this study can be said to be feasible. Here are the results of Multiple Linear Regression:

**Table 8 Multiple Linear Regression**

<table>
<thead>
<tr>
<th>Source: Output SPSS 25</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-.069</td>
<td>.026</td>
<td></td>
<td>-2.662</td>
<td>.009</td>
</tr>
<tr>
<td>X1 LN</td>
<td>.004</td>
<td>.001</td>
<td>.537</td>
<td>5.998</td>
<td>.000</td>
</tr>
<tr>
<td>X2 LV</td>
<td>-.066</td>
<td>.019</td>
<td>-.312</td>
<td>-3.536</td>
<td>.001</td>
</tr>
<tr>
<td>X3 KP</td>
<td>.000049</td>
<td>.000</td>
<td>.068</td>
<td>.763</td>
<td>.447</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Y PB
Based on the output of SPSS in the table above, the following equation is obtained:

\[ \text{ROA} = -0.069 + 0.004\ln - 0.066\text{DAR} + 0.000049\text{SAHAM} + e \]

Based on the regression, several conclusions were concluded, namely: The independent variable of company size represented by the natural logarithm (Ln) has a coefficient value of 0.004. This means that it has a positive effect on profitability. Based on data from the t-test, the independent variable of company size has a significance value of 0.00 which is <0.05. Thus, too, the first hypothesis that the size of a company influences profitability is supported. This is in line with the results of previous research conducted by Aghnitama, et al., (2021) which states that company size influences profitability. This result explains that the size of the company is one of the influences of increasing profitability.

The size of the company speaks of the size of a company. The larger a company, the greater the assets it has. This affects the company's profitability because large companies generally have good internal control so that they can make cost efficiency. Therefore, profitability can increase in harmony with the size of the company. The large size of the company will give a positive signal to the investors.

The signal is captured by investors to invest in large companies in the hope of getting high profits or profitability. Conversely, if the company has a size that tends to be small, then investors will catch bad signals and analyze that companies with small sizes are not able to generate large profitability.

The independent variable leverage represented by DAR has a coefficient value of -0.066. This means that it negatively affects profitability. Based on data from the t-test, the independent variable leverage has a significance value of 0.001 which is <0.05. Likewise, the second hypothesis that leverage affects profitability is supported. So, the greater the leverage, the lower the profitability. This result is in line with previous studies conducted Fransisca & Widjaja, 2019 and Susilawati & Purnomo, 2023 which stated that leverage negatively affects profitability. This result explains that leverage is one of the effects of decreasing profitability.

Leverage describes how much debt is in financing a company's spending. Companies can choose to use debt or equity for company spending with various considerations, for example, which party will ask for a greater return. The right composition of leverage can bring great profitability. When a company decides to use debt, it has an obligation to pay interest. Companies will find it difficult to make a profit if they have a high leverage ratio due to high interest. High-interest payments will reduce the profitability of the company.

A high level of leverage will give a negative signal to investors because the high debt of the company will reduce profitability, so potential investors will reconsider their intention to invest in the company. On
the other hand, if the company has a low level of leverage, then the company will give positive signals to potential investors. Low levels of debt indicate that the company is healthy and considered capable of generating greater profitability. This makes investors interested in investing in companies with low leverage.

The independent variable of public share ownership represented by the percentage of public ownership has a coefficient value of 0.000049. This means that it has a positive effect on profitability. Based on data from the t-test, the independent variable leverage has a significance value of 0.447. The figure is >0.05. Likewise, the third hypothesis that public shareholding influences profitability cannot be supported.

Public shareholding is shares owned by the people or the public. The shares are obtained from a special market that already exists. In 2021, IDX issued a provision that each company must have a minimum free float of 7.5%, and must be met by 2023. With this provision, public share ownership is only a condition for a company to survive in the market so this variable does not affect profitability. These results cannot prove a signal theory as the underlying theory of this variable.

**Conclusion**

From the results of this study, it is known that the size of the company has a positive influence on profitability. This also means that the larger the size of the company, the greater the profitability that can be generated because large companies have good internal controls so that they can make cost efficiency and get higher profitability. While leverage has a negative influence on profitability, which means that the higher the level of leverage will affect profitability in the opposite direction, which is getting worse or even experiencing losses. Because when the debt level is high, the company must pay the debt and reduce its profitability. And for public shareholding, this variable does not affect the profitability of the company. That is, the portion of public ownership in a banking company does not affect the profitability of the company. Because banking companies are still in the stage of fulfilling the provisions regarding free float.

The above results should be an input for investors to consider factors such as ROA and DAR in knowing the profitability growth of banking companies and the above results are also expected to be used as additional knowledge for future researchers to review whether these factors also have a similar impact on other companies.
References


Homepage :http://journal.ubm.ac.id/index.php/business-accounting/


Homepage :http://journal.ubm.ac.id/index.php/business-accounting/